

# **Investing in Biotech companies in 2009**

## **Lugano Communication Forum**

### **22 April 2009**

## Agenda

- Who is Aravis ?
- Global data European Market
- IPO vs M&A
- Structure of the VC market
- What companies get funded
- Closing remarks

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## Aravis' approach and objectives

- Focus on early stage projects developing new therapeutics or platforms in biopharmaceuticals
- Special attention to turn-around situations, spin-off and relocation
- Focused and dedicated team with complementary expertise
- Early involvement of Scientific Partners in Investment decision process
- Act as lead investor, take board seats bringing critical scientific, financial, strategic and operational expertise to portfolio companies



**Achieve long term capital gains**

## Aravis Venture achievements

- Swiss based Venture Group
- Founded in 2002
- CHF 120mn with two funds under management
- 13 investments, 3 exits, IRR 55%
- International investments (50% US, 40% Europe, 10% Asia)
- Current activity focused on follow on rounds and exits

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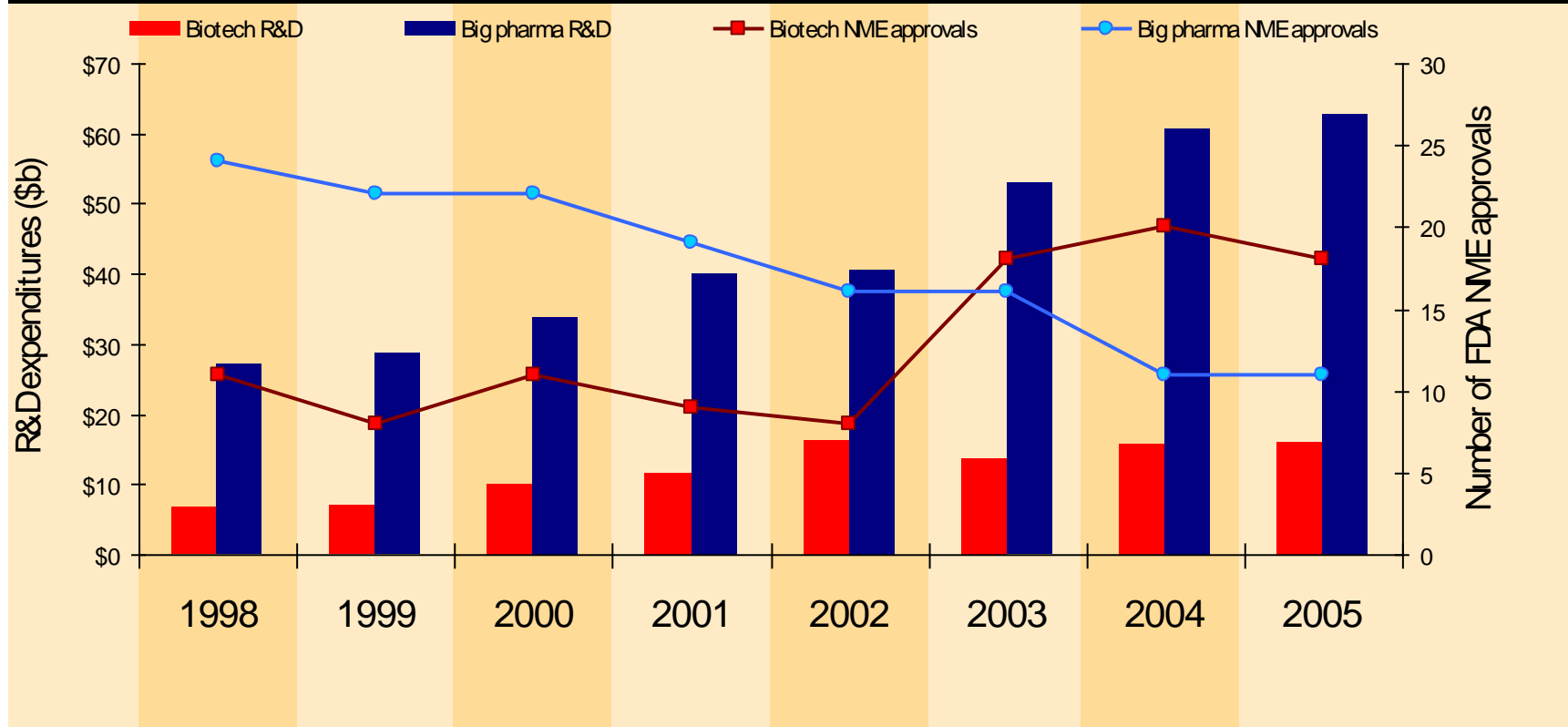
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## Global overview

- Overall the industry gives a well balanced picture
- Despite crisis the sector proves again recession resistant
- US and European drug industries remains a phase of stable and moderate but profitable growth
- Major patent expiries in the coming years remain a major concern
- Lack of Innovation in larger organization remains
- This global environment will continue to be favorable for smaller innovative Biotech companies

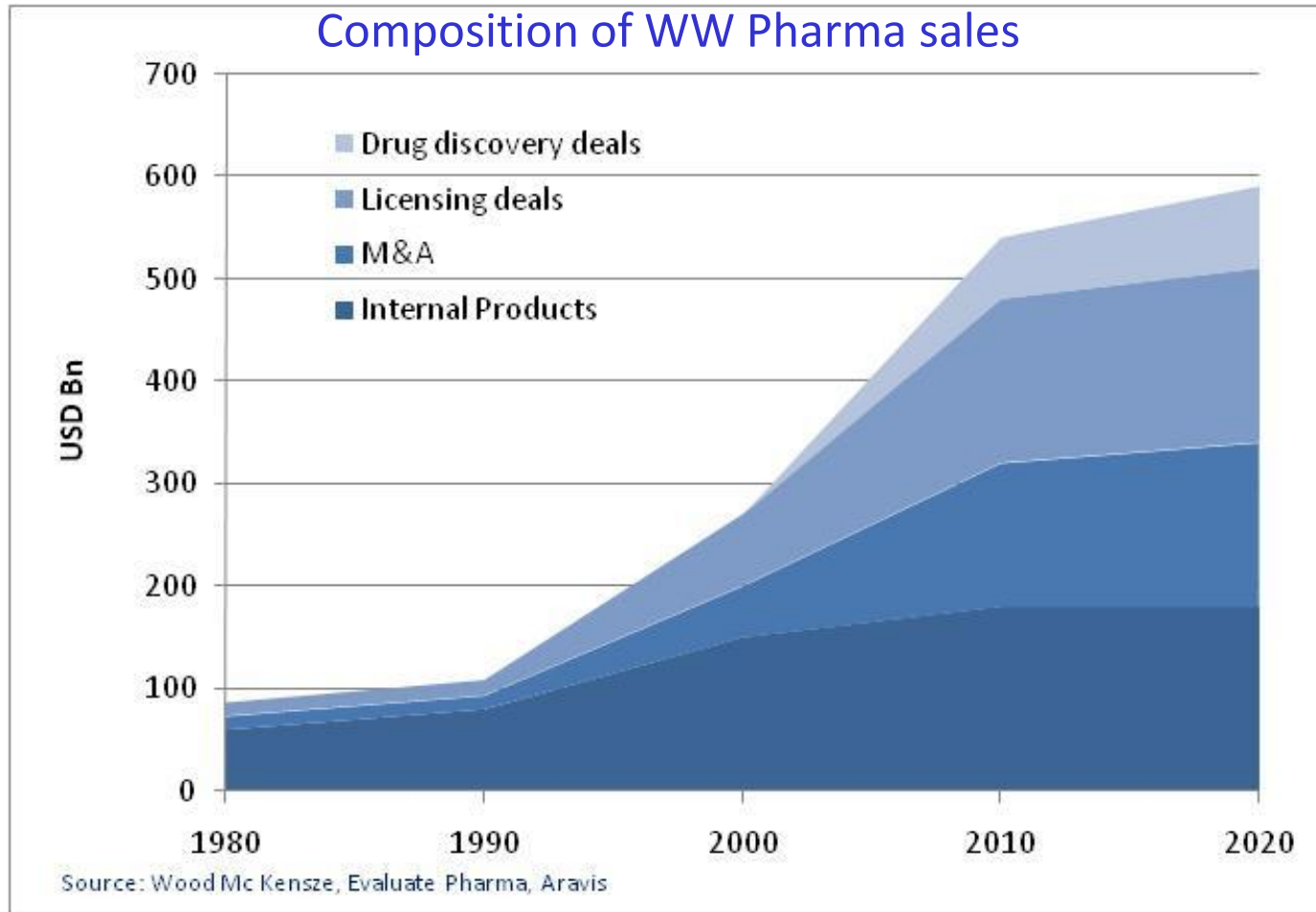
# The Innovation Gap

## Biotech and big pharma R&D expenditures and FDA new molecular entity (NME) approvals



Source: Ernst & Young. Certain drugs partnered between biotech and big pharma companies are counted in both groups. Big pharma is defined as the 15 largest global pharmaceutical companies by market cap. Companies that do not meet the definition of big pharma and do not meet Ernst & Young's definition of biotechnology are excluded from the analysis. Biotech R&D expenditures include large acquired in-process R&D charges from mergers in some years.

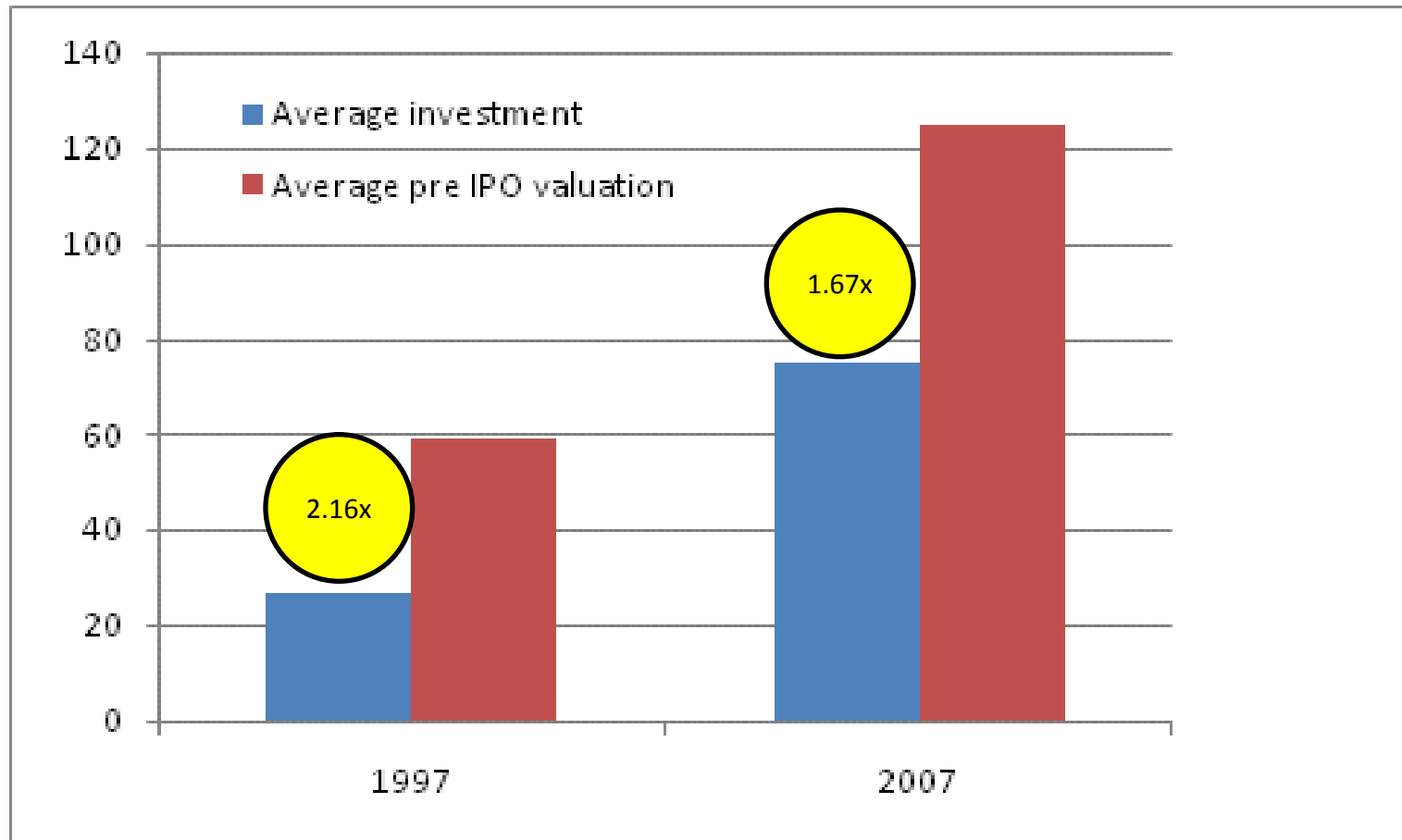
# Pharma needs biotech



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# More money in, less money out in the US

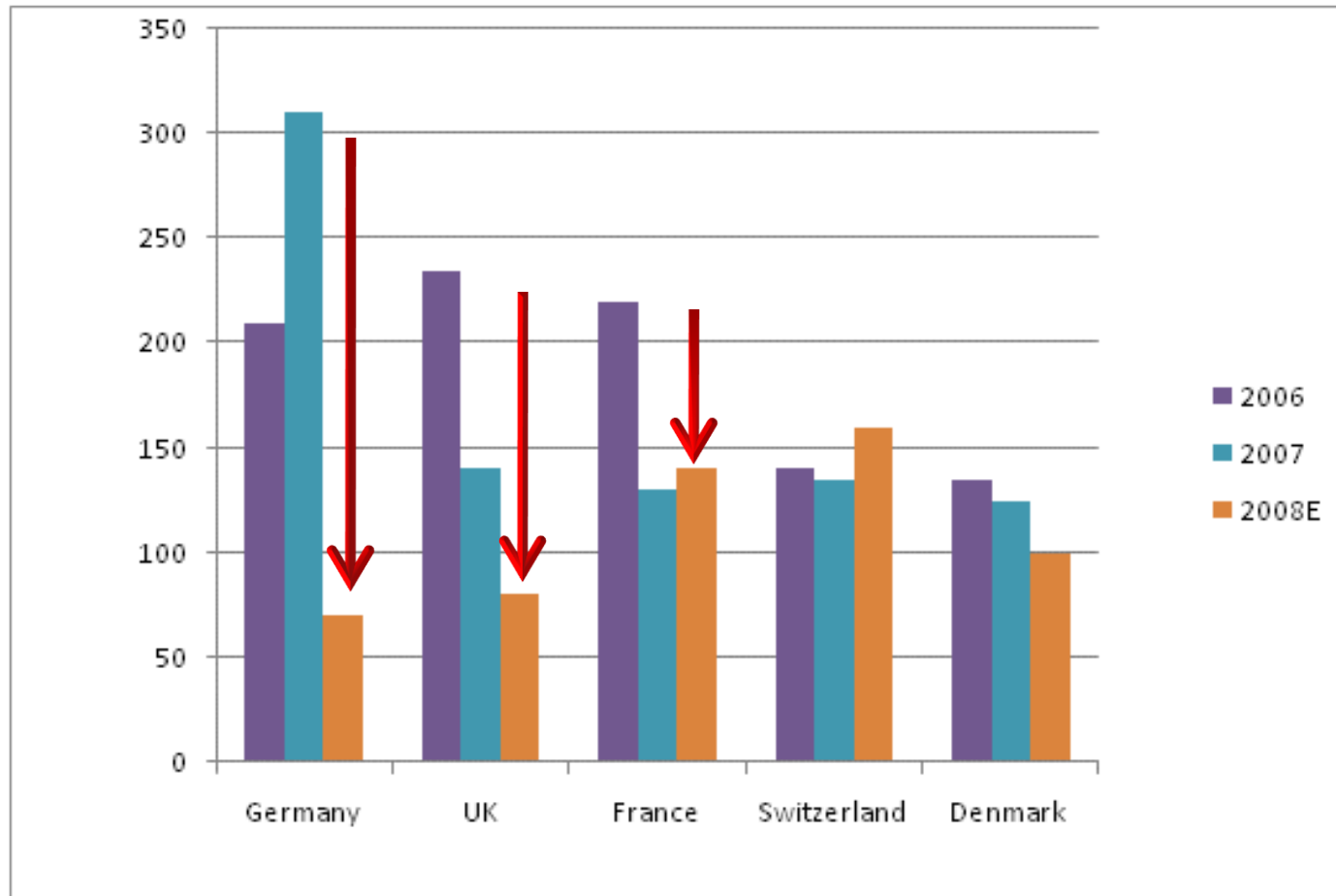


Source: Ernst & Young

## European overview

- IPO market Brain dead but Swiss pipeline attractive
- Switzerland and Denmark are the only markets offering a minimal liquidity in difficult times
- Germany and UK will remain difficult for longer times
- Corporate money increases on the side of VC's (Novartis, Roche, Merck-Serono)
- New angels in the game (Bertarelli, Varuma, Ingro, BZ Group)
- M&A rate will remain high as we consolidate further
- Companies have to decide if they are a consolidator or a target

## Europe clusters by country: small is beautiful



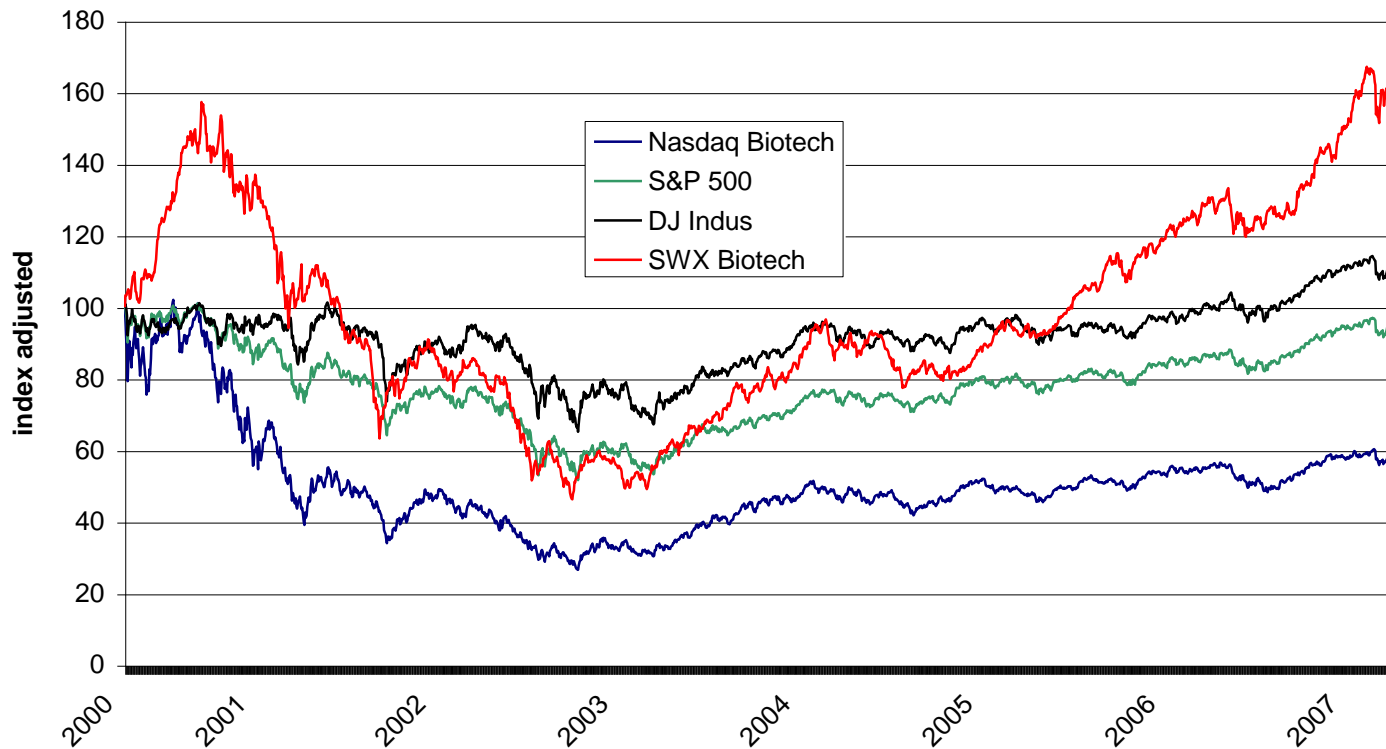
Source: VentureOne, Aravis

## Swiss overview

- Listed companies heavily oversold
- IPO window closed
- Reverse merger candidates pop up
- Pipeline of quality IPO candidates emerging

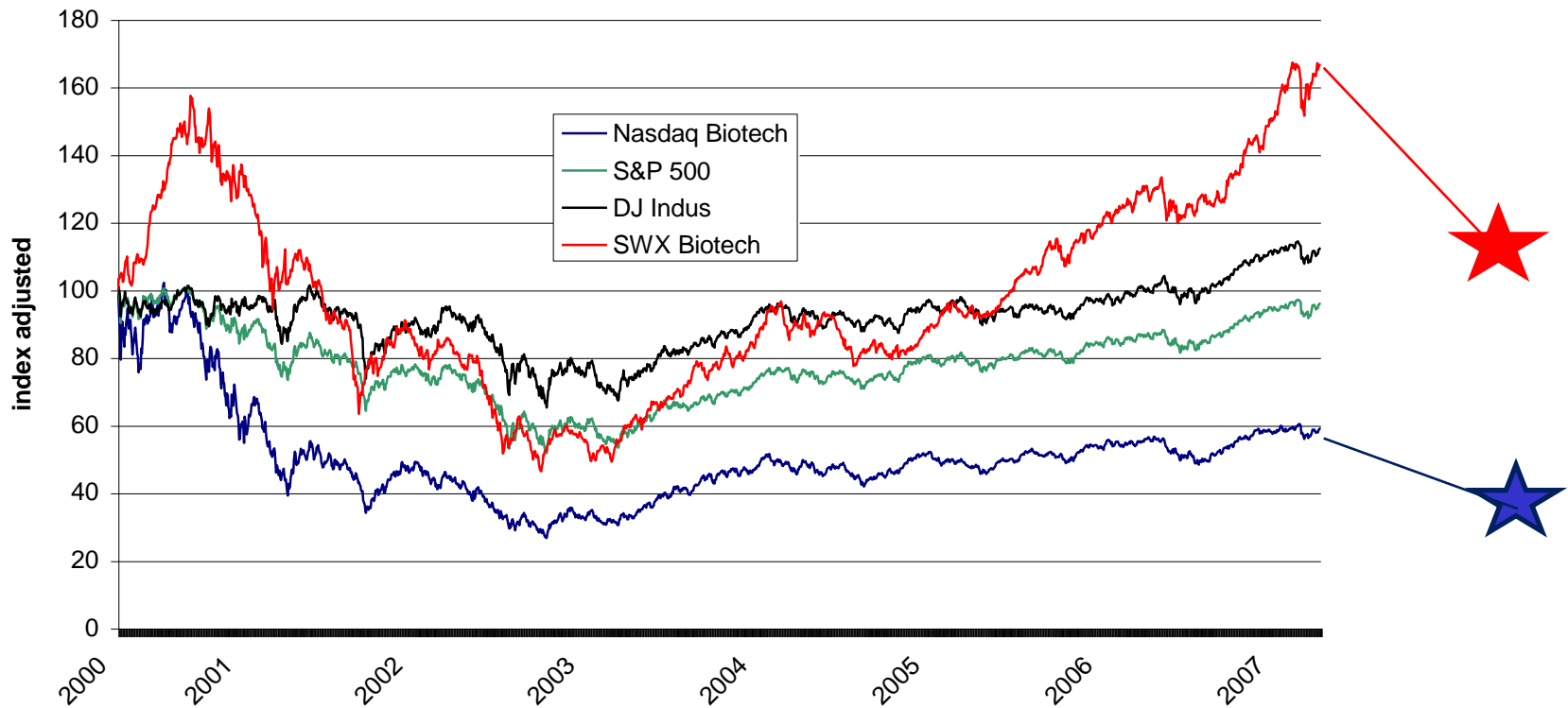
# Do you remember ?

Major indices comparison



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Major indices comparison



## Swiss Biotech IPO performance and Tech value

	Market price	IPO Raised	IPO Pre money	Current MV	Perf. Since IPO	Tech Value
Actelion	48.78	260	971	6'098	275.2%	5'731
Basilea	75.9	206	519	725	-22.6%	431
Arpida	0.73	97	198	15	-95.9%	-24
BioXell	3.17	62	176	17	-92.8%	-45
Santhera	47	89	190	164	-47.8%	89
Newron	17.15	118	201	104	-68.8%	53
Cosmo	12	54	224	167	-40.0%	132
Addex	30	137	294	176	-58.9%	56
Cytos	12.35			65	-38.3%	45

Actelion is 90% of the market and replaced Serono in proportion !

Performance of others disappointing but not hopeless, Arpida and BioXell are to obvious reverse merger candidates

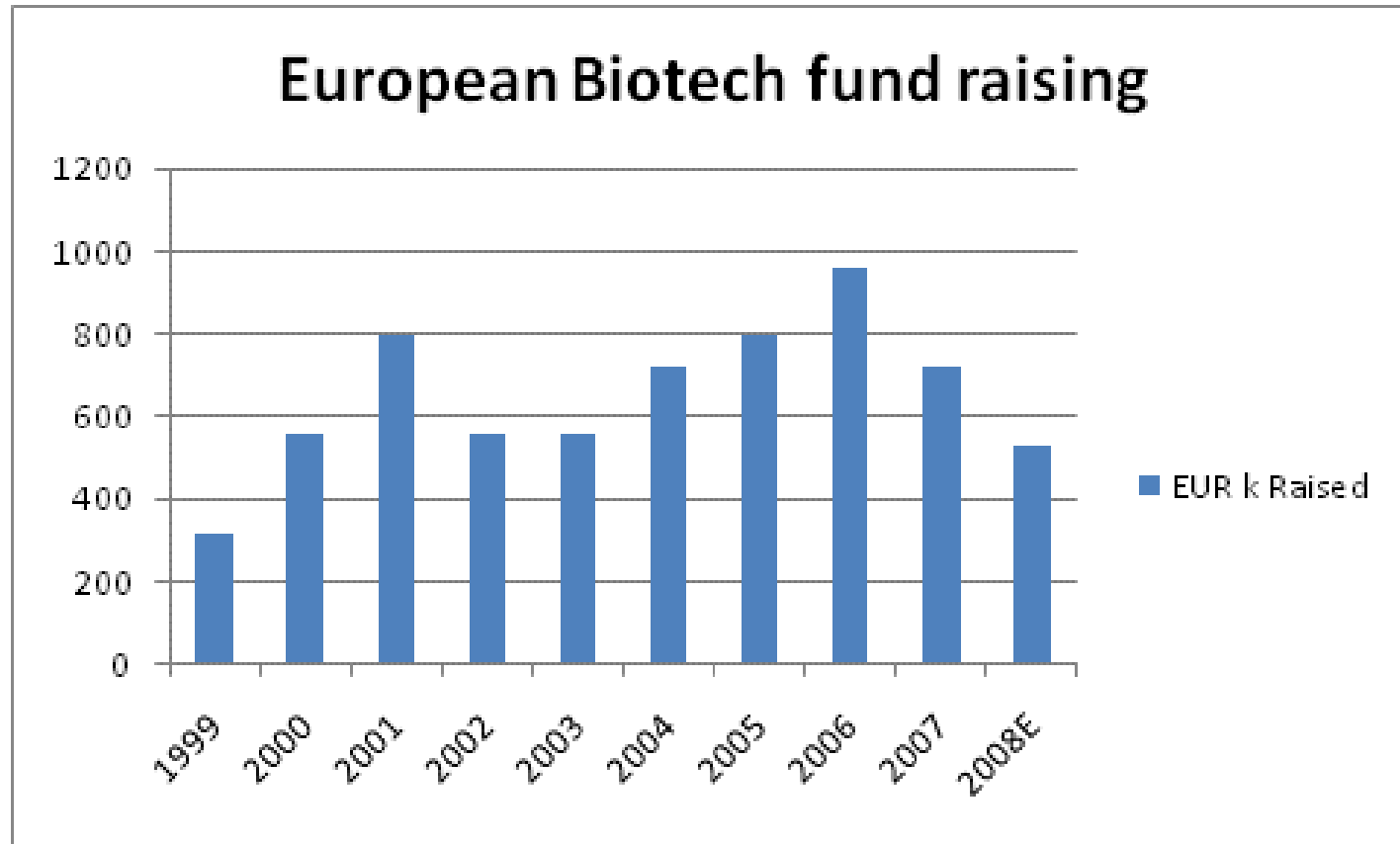
## 201X Swiss Biotech IPO Candidates

	Foundation	Money raised
• Novimmune, Immunology, Geneva	1998	CHF 100M
• Synosia, Central nervous system, Basel	2007	CHF 50M
• Esbatech, Ophthalmology, Zürich	1998	CHF 83M
• AC Immune, CNS, Oncology Lausanne	2003	CHF 64M
• Glycovaxyn, Vaccines, Zürich	2006	CHF 46M
• Nitech, specialty RA, Basel	2003	CHF 75M
• Kouros, Biosurgery, Zürich	1990	CHF 100M

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## Money invested will pick up but less companies will get funded



Source: Ernst & Young, BioCentury, BioWorld, VentureOne and Aravis

## Europe: funds have trouble raising money

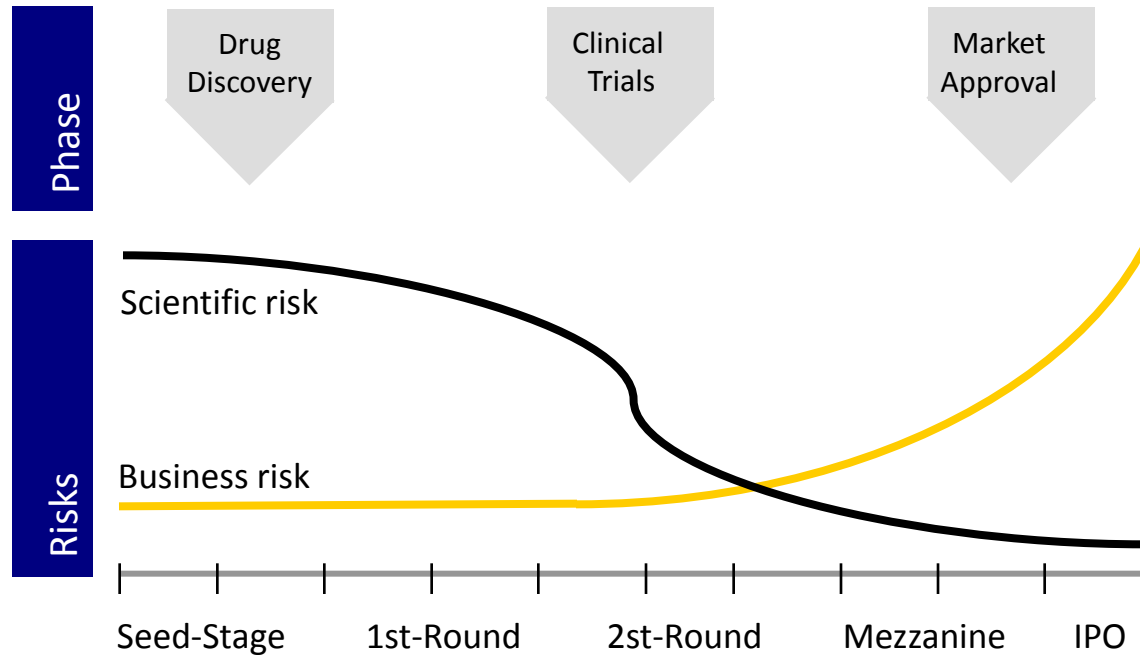
- Many larger fund closed way below their announced targets
- Mid size and smaller fund without help from European investment funds all raised less that EUR 50M from non-state sources
- Closed markets and lack of liquidity will not help performance numbers

**Syndication of utmost importance in the coming months to survive**

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## Understand the risk return profile of your company



### Key areas of focus must change over time

- Early stage: focus on Management and science (resp. commercial strategy)
- Pre clinical: Syndication is everything
- Clinical: Licensing, M&A (buy or sell)

## Cross Atlantic investing: Case study Telormedix

- Founder spent many years in the USA and wanted to come back to Tessin
- Platform company with an new concept to activate the immune system
- First program late pre-clinical

## Situation before aravis took the lead

- Company was not incorporated
  - Positive overall due diligence on the science
  - Founder made a positive impression
  - Science came from a credible source
- Location Lugano
  - Actually not a major hurdle
  - Combine local support and international investors
  - Location proved attractive for highly qualified employees
- Business model
  - Focus on a first product, keep the platform “virtual”

## aravis input...

- Acted as a Lead Investor
  - Syndicated international round of financing, involving strong support from BSI
  - Recruited Rolf Zinkernagel as co-founder
- Strategic issues
  - Product based business model
  - Focus on improving the data package on existing products
  - Initiated contacts with big Pharma for trade sale
- Execution
  - Board broadend
  - Strong focus on pre-clinical and regulatory

## Current situation

- Series A of CHF 21M closed in 2008
  - Aravis Lead
  - BSI Healthcapital
  - Proquest Ventures
  - Nextech
- Lead molecule close to entering the clinic
- Innate immunity platform producing new compounds
- Company funded until end 2010

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## Key lessons for entrepreneurs

- Don't kill the patient
- Don't go bankrupt
- Venture Capitalist are not all pirates
- Angels are not all angels
- How does your bride looks like (or get acquainted with M&A)

- **Boards:** it's difficult to see the picture when you are inside the frame but a good board will give you better advice than your mother
- **CEO:** the best breed don't grow on thinly sliced salami
- **Financing:** the time to eat is when the appetizers are passed around
- **Research:** it's only innovative if it's useful
- **Company culture:** don't expect Catfish to swim with sharks
- **Market:** after the R&D is finished, dogs want to eat dog food
- **IPO:** even turkey's can fligh high in strong winds
- **Turn around:** there are times when panic is appropriate